



AUDITOR-GENERAL
SOUTH AFRICA

The Municipal Manager
Vhembe District Municipality
Private Bag X 5006
Thohoyandou
0950

Received by
T.S. Moya.
06/12/2018

30 November 2018

Reference: 60663REG2017/18

Dear Madam

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Vhembe District Municipality for the year ended 30 June 2018

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Victor Bakali



Senior Manager : Limpopo

Enquiries: Prudence Muhlambi
Telephone: (012) 283 9346
Fax: (012) 283 9400
Email: Prudencem@agsa.co.za

Report of the auditor-general to Limpopo Provincial Legislature and the Council on Vhembe District Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Vhembe District Municipality set out on pages ... to ..., which comprise statement of financial position as at 30 June 2018, statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for property, plant and equipment. As described in note 43 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property, plant and equipment corresponding figure stated at R4 591 481 519 in the financial statements.
4. The municipality incorrectly calculated the replacement values for infrastructure assets in the current and prior year by applying valuation rates incorrectly. I was not able to determine the impact on the net carrying amount of infrastructure assets as it was impractical to do so. Consequently, I was unable to determine whether any further adjustment was necessary to the infrastructure assets stated at R4 572 956 873 (2016-2017: R4 591 481 519) in note 7 of the financial statements. There was also a resultant impact on the surplus for the period and on the accumulated surplus.
5. The municipality's accounting records did not facilitate easy identification and location of infrastructure assets and movable assets recorded in the financial statements. As a result infrastructure assets and movable assets included in the financial statements could not be physically verified. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment stated at R5 821 900 989 in note 7 of the financial statements.
6. The municipality did not adequately assess impairment of property, plant and equipment in accordance with GRAP 21, *Impairment of non-cash generating assets*. I was not able to

determine the impact on the net carrying amount of property, plant and equipment, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustment relating to property, plant and equipment stated at R5 821 900 989 in the financial statements was necessary.

Cash and cash equivalents

7. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for cash and cash equivalents. As described in note 43 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to cash and cash equivalents corresponding figure stated at R153 601 867 in the financial statements.
8. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents for current and prior year due to the poor status of the accounting records. I could not confirm the cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to cash and cash equivalents stated at R169 121 635 (2016-2017: R153 601 867) in the financial statements.
9. The municipality did not have adequate systems in place to maintain records of cash and cash equivalents. I identified a difference between the cashbook and the amount recorded in the financial statements amounting to R281 183 520. I could not confirm the cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to cash and cash equivalents stated at R169 121 635 (2016-2017: R153 601 867) in the financial statements.
10. I identified outstanding payments amounting to R602 911 661 that were processed in the general ledger but not processed by the bank. Consequently, cash and cash equivalents were understated by R602 911 661 and trade and other payables understated by the same amount. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.
11. I identified receipts amounting to R400 699 625 that were processed in the general ledger but not processed by the bank. Consequently, cash and cash equivalents were overstated by R400 699 625 and trade and other receivables understated by the same amount. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.
12. The municipality did not have adequate systems in place to maintain records of short term investments. I identified a difference between the investment register and the amount recorded in the financial statements amounting to R54 043 003. Consequently, cash and cash equivalents was understated by R54 043 003 and accumulated surpluses understated by the same amount.

Inventory

13. During 2017, I was unable to obtain sufficient appropriate audit evidence that water inventory had been properly accounted for, as internal controls had not been established over the recording of these transactions in the accounting records. I was unable to confirm water

inventory by alternative means. Consequently, I was unable to determine whether any adjustment to the inventory amounting to R5 922 669 as stated in note 2 to the financial statements, was necessary. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the inventory for the current period.

Payables from exchange transactions

14. The municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*. As the municipality did not maintain adequate records of outstanding payments for goods and services received but not yet paid at year-end, I was unable to determine the full extent of the understatement of trade creditors and accruals as it was impracticable to do so.

Provisions

15. The municipality did not accrue/provide for leave days for a number of employees, as required by GRAP 19, *Provisions, contingent liabilities and contingent assets*. As the municipality did not maintain adequate records of leave pay balances for all employees, I was unable to determine the full extent of the understatement of provisions as it was impracticable to do so.

Receivables from exchange transactions

16. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of receivables from exchange transactions for the current and prior year due to the poor status of the accounting records and non-billing of consumers. I was unable to confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment to receivables from exchange transactions stated at R101 384 785 (2016-2017: R358 894 954) in note 3 to the financial statements was necessary.
17. The municipality did not have adequate systems in place to maintain records of receivables from exchange transactions. I identified a difference of R7 504 233 between receivables from exchange transactions as per the statement of financial position and the underlying accounting records. Consequently, I was unable to determine whether any adjustments relating to receivables from exchange transactions amounting to R101 384 785 (2016-2017: R358 894 954) disclosed in note 3 to the financial statements was necessary.
18. SA Standards of GRAP 104, *Financial Instruments* requires the municipality to first assess whether objective evidence exists for individual impairment of financial assets that are financially significant, and then collectively for financial assets that are not individually significant. The municipality did not provide for the impairment of receivables from exchange transactions as disclosed in note 3 to the financial statements. I was unable to calculate what the impairment charge against receivables from exchange transactions and impairment losses expense should have been, as it was impractical to do so.

Receivables from non-exchange transactions

19. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of receivable from non-exchange transactions for the current and prior year due to the poor status of the accounting records. I was unable to confirm receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment to receivables from exchange transactions stated at R198 299 132 (2016-2017: R198 411 359) in note 4 to the financial statements was necessary.
20. SA Standards of GRAP 104, *Financial Instruments* requires the municipality to first assess whether objective evidence exists for individual impairment of financial assets that are financially significant, and then collectively for financial assets that are not individually significant. The municipality did not provide for the impairment of receivables from non-exchange transactions as disclosed in note 4 to the financial statements. I was unable to calculate what the impairment charge against receivables from non-exchange transactions and impairment losses expense should have been, as it was impractical to do so.

Statement of changes in net assets

21. I was unable to obtain sufficient appropriate audit evidence for the transactions included in the statement, as the municipality did not maintain records of differences between the underlining records as well as correction of errors made. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary these amounts.

Revenue from exchange transactions

22. I was unable to obtain sufficient appropriate audit evidence that management has charged consumers for water transactions in the current and prior year. Meter readings were not consistently done on a monthly basis which resulted in consumers not being billed. I was unable to confirm revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments to revenue from exchange transactions amounting to R103 436 454 (2016-2017: R120 590 104) disclosed in note 17 to the financial statements were necessary.
23. I was unable to obtain sufficient appropriate audit evidence that management has accounted for revenue collected by Musina municipality on behalf of the Vhembe district municipality for water transactions in the current year. I was unable to confirm revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments to revenue from exchange transactions amounting to R103 436 454 (2016-2017: R120 590 104) disclosed in note 17 to the financial statements were necessary.
24. The municipality did not charge interest on long outstanding debtors for the current and prior year. I could not quantify the misstatement as it was impractical to do so. Consequently, revenue from exchange transactions and receivables from exchange transactions are understated by an unknown amount.

Expenditure

25. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for expenditure due to the poor status of the accounting records. I could not confirm expenditure by alternative means. Consequently, I was unable to determine whether

any further adjustments were necessary to the expenditure stated R123 743 188 (2016-2017: R255 221 964) in the financial statements.

26. The municipality did not accurately account for expense transactions in accordance with GRAP 1, *Presentation of financial statements*. The municipality recognise overpayments as contracted services expenditure. Consequently, contracted services expenditure was overstated by R15 854 994 and surplus for the period understated by the same amount.

Irregular expenditure

27. The municipality did not include the required information on irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality made payments in contravention of the supply chain management requirements, however did not record all irregular expenditure incurred in the current year, resulting in irregular expenditure being understated by R486 238 461.

Unauthorised expenditure

28. The municipality did not include the required information on unauthorised expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality overspent the budget, however did not disclose the unauthorised expenditure incurred in the current year, resulting in unauthorised expenditure being understated by R640 606 609

Fruitless and wasteful expenditure

29. The municipality did not include the required information on fruitless and wasteful expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality did not record all fruitless and wasteful expenditure incurred in the current year, resulting in unauthorised expenditure being understated by R17 085 675

Cash flow statement

30. The municipality did not prepare the cash flow statement in accordance with GRAP 2, *Cash flow statements*. I was unable to reconcile R46 434 531 reflected in the cash flow statement to the underlying records. I was not able to determine the impact on the cash flow statement, as it was impracticable to do so.

Commitments

31. I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality did not maintain accurate and complete records of the contractual information used to determine commitments. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments stated at R1 097 513 842 in the financial statements.

Statement of budget and actual comparison

32. The SA Standards of GRAP 24, *Presentation of budget information in financial statements* requires that the municipality presents separately, by way of a disclosure note, an explanation of material differences between the budgets for which the entity is held publicly accountable

and actual amounts. The municipality did not provide explanations for the material differences between budgeted and actual amounts as required by the GRAP 24.

Contingent assets

33. The municipality did not account for contingent assets as required by GRAP 19, *Provisions, contingent liabilities and contingent assets*. I identified that the municipality recognised contingent assets for an investment that was impaired during the year. Consequently, contingent assets are overstated by R316 386 088.

Contingent liabilities

34. The municipality did not account for contingent liabilities as required by GRAP 19, *Provisions, contingent liabilities and contingent assets*. I identified liabilities amounting to R307 083 113 which were incorrectly accounted for as contingent liabilities. Consequently, contingent liabilities are overstated and payables are understated by same amount.

Emphasis of matters

35. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

36. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors discovered in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Uncertainty relating to the future outcome of exceptional litigation

37. As disclosed in note 37 to the financial statements, the municipality is a defendant in various legal claims amounting to R356 774 726. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Material losses

38. As disclosed in note 42 to the financial statements, material water losses to the amount of R68 761 977 were incurred due to poor infrastructure assets.
39. As disclosed in note 30 to the financial statements, material losses of R14 669 189 were incurred as a result of a write-off of irrecoverable trade debtors.

Other matters

40. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Withdrawal from the audit engagement

41. Due to the limitation imposed on the scope of the audit by management, I have disclaimed my opinion on the financial statements. However, for the legislated requirement to perform the audit of municipality, I would have withdrawn from the engagement in terms of the ISAs.

Unaudited supplementary schedules

42. The supplementary information set out on pages 3 to 4 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

43. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. The disclosure requirements did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

44. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2014 (Act No. 3 of 2016) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
45. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

46. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
47. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

48. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

49. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
50. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2018:

Development priorities	Pages in the annual performance report
KPA 1- Service delivery and infrastructure development	40 – 60
KPA 2- Local economic development	60 – 63

51. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
52. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

KPA 1 – Basic service delivery and infrastructure development

53. The reported achievements of the indicators listed below were misstated, as the evidence provided did not agree with the reported achievements as follows:

KPI 1 - Basic service delivery and infrastructure development		
Indicators description	Reported achievement	Audited value
No of prepay water meters installed	1540	3111
% response to all reported fires and accidents within stipulated time frame of 3 minutes	596	495
Number of fire safety inspection conducted	320	334
% of Building plans scrutinized	223	226
Number of air quality inspection conducted	40	41
No. of food inspections conducted	4600	4571
No. of surveillance of premises in relations to minimum health requirements conducted	3000	3154

KPI 1 - Basic service delivery and infrastructure development		
Indicators description	Reported achievement	Audited value
Number of Water samples collected (Environmental Health Services)	100	113
No. of pupils awarded with Mayoral bursary	96	100

54. The method of calculation for the achievement of this indicator was not clearly defined. As a result, we were unable to obtain sufficient appropriate audit evidence for the reported achievement. Limitation were placed on the scope of our work as we were unable to confirm the reported achievement by alternative means.

KPI 1 - Basic service delivery and infrastructure development	
Indicator description	Reported achievement
The percentage of households earning less than R1100 per month with access to free services	73%

Indicators not consistent between integrated development plan and services delivery and budget implementation plan budget.

55. Planned indicators specified in the service delivery and budget implementation plan and annual performance plan for the year under review were not consistent with the integrated development plan submitted for audit purpose.

KPI 1- Basic service delivery and infrastructure development		
KPI	Indicators planned under KPI 2 as per Integrated Development Plan (IDP)	Indicators planned under KPI 1 as per Service Delivery Budget Implementation Plan (SDBIP) and Annual Performance Report (APR)
Number of EPWP jobs created	KPI 2	KPI 1
Number of EPWP policy reviewed	KPI 2	KPI 1

KPA 2 – Local economic development

56. We were unable to obtain sufficient appropriate audit evidence for the reported achievement of the target. This was due to limitations on the scope of our work.

KPI 2 - Local economic development	
Indicator description	Reported achievement
Number of jobs created through municipal LED initiative including capital projects	200

Indicators not consistent between integrated development plan and services delivery and budget implementation plan budget.

57. Planned indicators specified in the service delivery and budget implementation plan and annual performance plan for the year under review were not consistent with the integrated development plan submitted for audit purposes.

KPI 2- Local economic development		
KPI	Indicators planned under KPI 1 as per Integrated Development Plan (IDP)	Indicators planned under KPI 2 as per Service Delivery Budget Implementation Plan (SDBIP) and Annual Performance Report (APR)
Number of environmental management campaigns conducted	KPI 1	KPI 2
Number of biosphere awareness campaigns conducted	KPI 1	KPI 2

Other matters

58. I draw attention to the matters below.

Achievement of planned targets

59. Refer to the annual performance report on pages 40 to 63 for information on the achievement of planned targets for the year and explanations provided for the under/ over achievement of a significant number of targets. This information should be considered in the context of the qualified opinion expressed on the usefulness and reliability of the reported performance information in paragraphs of this report.

Report on the audit of compliance with legislation

Introduction and scope

60. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

61. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual report

62. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

63. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and/or the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

Assets management

64. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a).

65. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

66. Funds were invested in VBS Mutual bank, in contravention of municipal investment regulation 6.

Liabilities management

67. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
68. An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the MFMA

Expenditure management

69. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
70. Payments were made from the municipality's bank account without the approval of a properly authorised official, as required by section 11(1) of the MFMA.
71. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the payment of funds, as required by section 65(2)(a) of the MFMA.
72. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for disclaimer paragraph. The majority of the disclosed irregular expenditure was caused by awarding of contracts in contravention with SCM regulations. Irregular expenditure amounting to R486 238 461 was incurred in current year.
73. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred. The majority of the disclosed fruitless and wasteful expenditure was caused by overpayment of suppliers and penalties on late submission to SARS. Fruitless and wasteful expenditure amounting to R17 085 675 was incurred.
74. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for disclaimer paragraph. Unauthorised expenditure amounting to R640 606 609 was incurred in the current year.

Revenue management

75. An adequate management, accounting and information system which accounts for revenue, debtors, receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.
76. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
77. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

78. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Procurement and contract management

79. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).
80. Some contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
81. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. This non-compliance was identified in the procurement processes for the contracts selected under contract management tab.
82. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
83. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

Consequences management

84. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
85. Losses resulting from irregular expenditure were not recovered from the liable person, as required by section 32(2) of the MFMA.
86. Some of the losses resulting from irregular expenditure were written-off as irrecoverable without being certified by council as irrecoverable, in contravention of section 32(2)(b) of the MFMA.
87. Some of the losses resulting from irregular expenditure were certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.
88. Some of the cases of irregular expenditure that constituted a criminal offence were not reported to the South African Police Service, as required by section 32(6), 32(7) and 102(2) of the MFMA.
89. Some of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
90. Losses resulting from fruitless and wasteful expenditure were not recovered from the liable person, as required by section 32(2)(b) of the MFMA.

91. Losses resulting from fruitless and wasteful expenditure were written-off as irrecoverable without being certified by council as irrecoverable, in contravention of section 32(2)(b) of the MFMA
92. Some of the fruitless and wasteful expenditure were certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.
93. Allegations of financial misconduct against senior managers were not always investigated, as required by disciplinary regulations for senior managers 5(3) and section 171(4) of MFMA.
94. Allegations of financial misconduct laid against officials of the municipality were not investigated in accordance with the requirements of municipal regulations on financial misconduct procedures and criminal proceedings 5(4).
95. Allegations of financial misconduct laid against officials of the municipality were not investigated in accordance with the requirements of municipal regulations on financial misconduct procedures and criminal proceedings 5(4)

Other information

96. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
97. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
98. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal control deficiencies

99. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
100. The accounting officer did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

101. The municipality did not implement controls over daily and monthly processing and reconciling of transactions.
102. There was no adequate review and monitoring of compliance with applicable laws and regulations.
103. The governance committee has provided the necessary oversight to the municipality as required by legislation.

Auditor-General

Polokwane

30 November 2018



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by accounting officer.
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Vhembe district Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.